

Message Text

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C O N F I D E N T I A L LIMA 7909

FOR ARA ONLY: DAS BUSHNELL

E.O. 11652: GDS
TAGS: EFIN PE
SUBJ: PERU'S DEBT RESCHEDULING

REF: (A) LIMA 7547; (B) STATE 216235

1. AS I ASSUME YOU HAVE REALIZED, THE RESPONSE IN REF (A)
TO THE NEED "TO RESTRUCTURE MATURITIES FALLING DUE IN -- 1978
AND 1979" SHOULD HAVE READ "- - 1979 AND 1980". SILVA RUETE
HAS CONFIRMED TO ME THIS WAS A TYPO IN HIS LETTER.

2. BEYOND ORAL ASSURANCES OF A DESIRE TO COOPERATE, I
HAVE NOT RESPONDED TO THE MINISTER'S LETTER. THE FORMULATION
IN REF (B) ADDS NOTHING TO WHAT I HAVE BEEN TELLING THE
GOP FOR SOME MONTHS NOW. MORE SIGNIFICANTLY, I AM INCREASINGLY
CONCERNED ABOUT THE POSSIBILITY THAT USG POSITION ON TWO
OR THREE CRITICAL POINTS MIGHT PROVE A NASTY SHOCK FOR THE
PERUVIANS RATHER THAN THE EVIDENCE OF COOPERATION THEY HOPE
TO RECEIVE.

3. FIRST IS THE QUESTION OF CCC. IF OUR FIGURES ARE
CORRECT, PRINCIPAL PAYMENTS DUE IN 1979 ON CCC CREDITS
COME TO OVER 60 PERCENT OF TOTAL PRINCIPAL DUE THE USG
AND ABOUT 20 PERCENT OF THE OVERALL TOTAL FOR ALL COUNTRIES.
THUS A PARTIAL RESCHEDULING TO EXCLUDE CCC DOES NOT
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APPEAR FEASIBLE. SILVA RUETE'S LETTER STATES THAT PERU
WILL REQUIRE APPROXIMATELY \$400 MILLION IN FOOD IMPORTS
IN 1979 AND 80. THE AGRICULTURAL ATTACHE TELLS ME THAT
THE GOP IS PLANNING ON ASKING FOR \$100 MILLION IN CCC
CREDITS FOR 1979. IT APPEARS LIKELY THAT THIS FIGURE
WAS INCLUDED IN THE CALCULATIONS UNDERLYING THE GOP
LETTER OF INTENT TO THE IMF. IF RESCHEDULING CLOSES THE

CCC WINDOW, THE BENEFITS OF THAT EXERCISE WILL BE CONSIDERABLY REDUCED -- OR THERE WILL BE YET MORE HUNGRY PEOPLE IN PERU.

4. I AM AWARE THAT CCC IS A COMMERCIAL AND NOT A FOREIGN AID FACILITY. BUT IT SEEMS TO ME THAT CONTINUED PERUVIAN ACCESS ON A REASONABLE SCALE TO CCC CREDITS UNDER THE CIRCUMSTANCES OF AN IMF STANDBY AND A GENUINE EFFORT TO RESTORE FINANCIAL STABILITY WOULD BE SOUND COMMERCIAL POLICY, PARTICULARLY IN TERMS OF PROTECTING OUR LARGE MARKET HERE IN AGRICULTURAL COMMODITIES. PL-480 COULD BE A MITIGATING FACTOR. (INDUSTRY AND COMMERCE MINISTER LANATA HAS SENT ME A LETTER ASKING FOR A \$45 MILLION TITLE I PROGRAM IN FY 79 -- SEPTEL.) BUT THE LIMITED ALLOCATIONS LIKELY TO BE AVAILABLE TO PERU AND RESTRICTIONS IMPOSED BY UMR'S DIM THAT PROSPECT.

5. A SIMILAR SITUATION, ALTHOUGH OF SMALLER MAGNITUDE, EXISTS FOR EXIM CREDITS. EXIM REPAYMENT OF PRINCIPAL AMOUNTS TO AN ADDITIONAL 25 PERCENT OF THE TOTAL DUE TO THE U.S. IN 1979. IF RESCHEDULING OF THIS DEBT MEANS THAT THE GOP WILL BE EXCLUDED FROM NEW LINES OF EXIM CREDIT DURING THE NEXT TWO CRITICAL YEARS, WE WOULD NOT ONLY CONSTRAIN TRADE CREDIT FOR PERU, BUT APPEAR TO BE BACKTRACKING ON AN EARLIER POLITICAL COMMITMENT. I REFER TO THE LETTER OF JUNE 2 FROM SECRETARY BLUMENTHAL TO CONFIDENTIAL

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FONMIN DE LA PUENTE IN WHICH BLUMENTHAL STATES THAT THE TREASURY DEPARTMENT WOULD SUPPORT EXPANSION OF EXIM ACTIVITY IN PERU ONCE AN IMF AGREEMENT HAD BEEN REACHED. (NO REFERENCE WAS MADE TO DEBT RESCHEDULING IN THE BLUMENTHAL LETTER, ALTHOUGH IT WAS REASONABLY CLEAR EVEN AT THAT TIME THAT A REVISED IMF STANDBY FOR 1979 WOULD HAVE TO INCLUDE SOME FORM OF DEBT RESTRUCTURING.)

6. THE LAST POINT OF CONCERN IS WHAT I UNDERSTAND TO BE A RELUCTANCE IN WASHINGTON TO CONSIDER MORE THAN A SINGLE-YEAR RESCHEDULING. THIS PROBLEM MAY BE RELATIVELY INSIGNIFICANT IN TERMS OF FINANCIAL IMPACT, ASSUMING THAT THE GOP STICKS TO THE AUSTERITY PROGRAM IN THE YEAR AHEAD. BUT THE POLITICAL FALLOUT COULD BE HEAVY. THE DEBATE OVER WHAT TO DO ABOUT FOREIGN DEBT IS INCREASINGLY INTENSE HERE. THE LEFT CONTINUES TO PUSH HARD FOR WHAT FOCEP'S GENARO LEDESMA NOW CALLS "A SELECTIVE UNILATERAL MORATORIUM". MANUEL ULLOA, BELAUNDE'S LAST AND HIGHLY RESPECTED FINANCE MINISTER, HAS JUST CALLED FOR A THREE-YEAR MORATORIUM (PRESUMABLY WITH THE CONSENT OF THE CREDITOR COUNTRIES) ON BOTH INTEREST AND PRINCIPAL PAYMENTS IN ORDER TO REVIVE THE PRIVATE SECTOR. MORALES

BERMUDEZ AND SILVA RUETE KEEP INSISTING THAT THE GOP
WILL BE ABLE TO NEGOTIATE A FAVORABLE ARRANGEMENT.

7. MY EUROPEAN COLLEAGUES (THERE IS NO JAPANESE AMBAS-
SADOR HERE NOW) GENERALLY THINK THEIR GOVERNMENTS WOULD
BE WILLING TO GO ALONG WITH A TWO-YEAR RESCHEDULING.
AND THEN THERE IS THE "GENEROSITY" SHOWN BY THE SOVIETS
IN THEIR THREE-YEAR RESCHEDULING. NO GREAT FORESIGHT IS
REQUIRED TO IDENTIFY THE PUTATIVE VILLAIN OF THIS PIECE.

8. I AM AWARE THAT TIME AND DISCUSSION WITH THE GOP
WILL BE REQUIRED TO REACH DEFINITIVE POSITIONS ON THESE
POINTS. BUT I THINK IT IMPORTANT THAT SILVA RUETE HAVE
SOME FOREWARNING OF THE PROBLEMS HE MIGHT ENCOUNTER BE-
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FORE HE GOES TO WASHINGTON -- IN PART TO PRESERVE MY OWN
CREDIBILITY WITH HIM. I AM LUNCHING PRIVATELY WITH HIM
ON SEPTEMBER 11 AND WOULD APPRECIATE ANY GUIDANCE YOU
CAN GIVE ME BY THEN. SHLAUDEMANN

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